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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

BY HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Room TW-A325
Washington, DC 20554

Re: Comments of PRTC; Federal-State Joint Board on Universal
Service: Recommendations for Phasing Down Interim Hold-
Harmless Provision (CC Docket No. 96-45) /

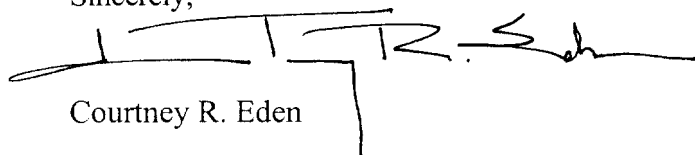
Dear Secretary Salas:

Enclosed, please find an original and four copies of the Comments submitted on behalf of the Puerto Rico Telephone Company, Inc. ("PRTC") in the above-referenced proceeding.

Please date-stamp one of the enclosed copies of the Comments and return to us, via our messenger.

You may reach me directly at (202) 842-8843 should you have any questions.

Sincerely,


Courtney R. Eden

CRE

Enclosure

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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AUG 14 2000

~~FEDERAL COMMUNICATIONS COMMISSION~~
~~OFFICE OF THE SECRETARY~~

In the Matter of)	
)	
Federal-State Joint Board on Universal Service:)	CC Docket No. 96-45
Recommendations for Phasing Down Interim)	DA 00-1536
Hold-Harmless Provision)	

COMMENTS OF PUERTO RICO TELEPHONE COMPANY, INC.

Puerto Rico Telephone Company, Inc. ("PRTC"), by its attorneys, hereby submits comments in response to the public notice of the Commission in the above-referenced proceeding.¹ In the Public Notice, the Commission seeks comments regarding the recommendation of the Federal-State Joint Board on Universal Service ("Joint Board") that the balance of interim hold-harmless support—less Long Term Support or "LTS"—should be phased down commencing on January 1, 2000, by \$1.00 reductions in average monthly, per-line support on a study area basis.² This phase down would repeat on an annual basis until the support is eliminated.

I. INTRODUCTION

Universal service support is significant to continued efforts to increase subscribership in Puerto Rico. The continued need for and fundamental importance of support at existing levels in

¹ Common Carrier Bureau Seeks Comments on Federal-State Joint Board on Universal Service; Recommendations for Phasing Down Interim Hold-Harmless Provision, Public Notice, CC Docket No. 96-45, DA 00-1536 (rel. July 11, 2000) ("Public Notice").

² The recommendations of the Joint Board are contained in a recommended decision, released on June 30, 2000. See Federal-State Joint Board on Universal Service, Recommended Decision, CC Docket No. 96-45, FCC 00J-1 (rel. June 30, 2000) ("Recommended Decision").

providing service to Puerto Rico consumers is amplified by the island's overall low telephone penetration level. Specifically, the telephone subscribership rate in Puerto Rico remains around 74.2 percent, compared to the national average penetration rate (as of July, 1999) of 94.4 percent. This situation is not likely to improve without continued hold-harmless support, if not an increase in support. Thus, universal service support should be designed to meet the needs of high-cost, low service penetration areas like Puerto Rico.

In the Recommended Decision, the Joint Board addresses the proposed phase down of universal service through hold-harmless support and LTS. These types of support serve different purposes. Specifically, hold-harmless support is an interim measure designed to protect consumers from rate shock during the transition to the new high-cost universal support mechanism for non-rural carriers. By comparison, LTS recovers interstate costs for participants in the National Exchange Carrier Association ("NECA") carrier common line ("CCL") pool. As a threshold matter, PRTC does not support the phase down or elimination of hold-harmless support in transitioning to the new forward-looking, high-cost universal service support mechanism. To the extent that hold-harmless support is phased down, PRTC agrees that LTS should be removed from the phase down, as the Joint Board has recommended. Furthermore, if hold-harmless support is phased down, support should not be reduced on a study area basis, as the Joint Board has recommended, but on a wire center basis, consistent with the Commission's requirements for targeting support.

II. THE COMMISSION SHOULD ADOPT THE JOINT BOARD'S RECOMMENDATION TO EXCLUDE LTS FROM THE PHASE DOWN OF HOLD-HARMLESS SUPPORT

LTS should be excluded from the phase down of hold-harmless support because the new forward-looking support mechanism fails to replace LTS (for non-rural carriers). Thus, the

inclusion of LTS in the phase down of hold-harmless support could substantially impact the rates of non-rural carriers.³ For example, NECA estimates that a loss of LTS for non-rural carriers could increase the CCL rate by 42 percent.⁴ Recognizing the differences between LTS and high-cost support for basic local services, the Joint Board appropriately recommended that the Commission should exclude LTS from the phase down of hold-harmless support, and PRTC urges the Commission to adopt this recommendation.

III. THE COMMISSION SHOULD REJECT THE JOINT BOARD'S RECOMMENDATION TO PHASE DOWN HOLD-HARMLESS SUPPORT THROUGH REDUCTIONS IN PER-LINE SUPPORT ON A STUDY AREA BASIS

As a threshold matter, PRTC opposes, for several reasons, a transition to the model methodology preceded by the elimination of hold-harmless support. For example, the methodology and its inputs—when applied to insular areas not served by rural carriers (as the case with Puerto Rico)—are flawed and drastically change the level of support to be provided to Puerto Rico. This situation would only be exacerbated by the premature elimination of hold-harmless support. Accordingly, PRTC makes the following recommendations, while continuing to oppose the phase down of hold-harmless support.

A. The Recommendation to Phase Down Hold-Harmless Support Through Reductions in Per-Line Support on a Study Area Basis Conflicts with Existing Rules

Section 54.311(b) of the Commission's rules targets hold-harmless support (for non-rural carriers) based on a "cascading" or descending method. Under this method, support is targeted to wire centers, in a cascading fashion, from the highest to the lowest cost wire centers, until the

³ See id. at 5 (¶ 9).

⁴ See id. (citing NECA Comments at 4-5).

support is fully distributed.⁵ Under this methodology, support is first distributed to the wire center that has the highest forward-looking economic cost per-line. Support is distributed to this wire center until its average forward-looking economic cost per-line, net of support, equals the average forward-looking economic cost per-line of the second most high-cost wire center. This process is repeated, “buying down” the per-line cost of the first and second highest cost wire centers to the cost of the third highest cost wire center, and so on, until the support is exhausted.

By comparison, the Joint Board’s recommendation requires hold-harmless support to be phased down, annually, through \$1.00 reductions in average monthly, per-line support on a study area basis.⁶ As a result, support is eliminated more rapidly under the Joint Board’s proposal because the support is reduced on a study area basis, whereas the current rules require the targeting of support on a wire center basis.⁷ This mismatch causes a premature and detrimental reduction in support to the highest cost wire centers, contrary to the Commission’s targeting rules. In addition, the Joint Board has failed to provide any basis for this departure from the Commission’s methodology. Accordingly, PRTC urges the Commission to reject the Joint Board’s recommendation.

B. The Recommendation to Phase Down Hold-Harmless Support Threatens Rate Shock

Interim hold-harmless support provides PRTC with \$1.86 and \$12.06 in support, respectively, for each of its two study areas.⁸ Under the Joint Board’s proposal, support would be eliminated in the first study area after the second year, while support would be eliminated in

⁵ See 47 C.F.R. § 54.311(b).

⁶ See Recommended Decision at 8-9 (¶ 15).

⁷ See 47 C.F.R. § 54.311(b).

⁸ See Recommended Decision at 6 (¶ 11).

the second study area after the 13th year.⁹ Application of the proposed reductions, on a study area basis, would eliminate more quickly support to the highest cost areas than is warranted by the Commission's requirement to target support on a wire center basis. As a result, rate shock—through increased consumer rates—is a virtual certainty. This result is apparent considering that the elimination of hold-harmless support means for Puerto Rico the complete loss of approximately \$133 million in universal service support.¹⁰ Thus, the elimination of hold-harmless support for Puerto Rico will mean that no alternative support will exist, even at a reduced level.

The artificial, rapid elimination of hold-harmless support that would result from adoption of the Joint Board's recommendation would prove especially detrimental to efforts to provide universal service in Puerto Rico. Hold-harmless support remains critical to PRTC's efforts to provide affordable, basic telephone service throughout Puerto Rico, where the telephone subscribership rate is only a fraction of the national average penetration rate. With existing universal service support, PRTC has been able to increase and maintain subscribership levels. However, the same results cannot be expected when support is reduced and eliminated, and this result is antithetical to the purposes of the universal service program. In addition, increasing rates in Puerto Rico—where high-costs and low income place a premium on at least maintaining current support levels and network extension efforts—would mean driving some current subscribers off the network. This result would also be contrary to the goals of universal service.

⁹ See, e.g., id. at 8 (¶ 14 & n.47).

¹⁰ Common Carrier Bureau Releases State-By-State Universal Service High-Cost Support Amounts for Non-Rural Carriers and Forward-Looking Cost Model Results, CC Docket Nos. 96-45 & 97-160, DA 99-2399, at attached spreadsheet (rel. Nov. 2, 1999).

Universal service support remains critical to PRTC's efforts to provide affordable, basic telephone service in Puerto Rico. Therefore, no reason exists to reduce support prematurely and arbitrarily on a study area basis. Thus, the Commission should reject the recommendation of the Joint Board to phase down hold-harmless support through reductions in per-line support on a study area basis, but any reduction the Commission adopts should be on a wire center basis.

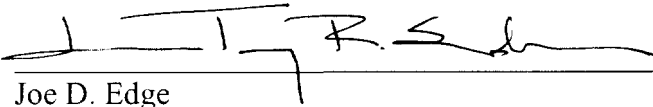
IV. CONCLUSION

For these reasons, the Commission should retain hold-harmless support, without phasing down such funds. However, to the extent that hold-harmless support is phased down, the Commission should adopt the Joint Board's recommendation to eliminate LTS from the phase down of hold-harmless support. Furthermore, if hold-harmless support is phased down, any

reductions in support should be made on a wire center basis, rather than a study area basis, consistent with the Commission's requirement for targeting support.

Respectfully submitted,

PUERTO RICO TELEPHONE COMPANY, INC.

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Its Attorneys

August 14, 2000

CERTIFICATE OF SERVICE

I, Carolyn Marshall, certify that a copy of the foregoing Comments was delivered as designated below on the 14th day of August, 2000, to each of the following individuals or entities:

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Room 8-B201
Washington, DC 20554

The Honorable Susan Ness*
Commissioner
Federal Communications Commission
445 Twelfth Street, S.W.
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Washington, DC 20554

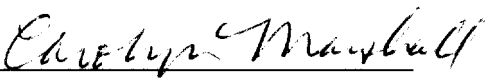
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